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SUBJECT: AMBASSADOR MEETS MARITIME, TOURISM, TRANSPORT AND DEVELOPMENT MINISTER

Summary

1. Bozidar Kalmeta, Croatia's Minister of Maritime, Tourism, Transport and Development, said in his February 9 introductory meeting with the Ambassador that reconstruction of returning Serbs' homes and road building would be his two top priorities. The government would consider giving Bechtel a contract to participate in building a highway from Split to Dubrovnik. It also intends to continue modernization of the Croatian railroads and liberalize the telecommunications market. In tourism, the GOC would seek to raise the quality of service by privatizing hotels to brand-name investors. A joint project with the World Bank has been started to treat wastewater in coastal cities. Kalmeta would like to see creation of an American-style Coast Guard. Despite these numerous challenges, Kalmeta's business-mindedness inspires optimism. End summary.

Reconstruction

2. Croatia's new Minister for Maritime Affairs, Tourism, Transport and Development, Bozidar Kalmeta, said at his February 9 introductory meeting with the Ambassador that reconstruction of the remaining 5,000 houses for which reconstruction applications were outstanding -- 80 percent of which was ethnic-Serb owned property -- was his ministry's top priority. He estimated that this effort would cost about 1.3 billion kuna (approx. 215 million dollars) and would be completed by the spring of 2005. Kalmeta praised his team working on reconstruction, led by his State Secretary for development, Zdravko Livakovic, and including an ethnic Serb assistant minister, Milan Janjic of the Serb Democratic Forum (SDF). Revitalizing the economy in the war-affected areas will be part of the reconstruction effort. Kalmeta said the government was preparing a new law on Areas of Special State Interest, which would include additional economic incentives for these areas.

Transportation Infrastructure

3. Kalmeta identified construction of infrastructure as the second highest priority of his ministry. The government will continue the same pace of road building as the previous one. Referring to a meeting he had had the same day with Bechtel representatives, the Prime Minister and the Foreign Minister, Kalmeta said the government would consider Bechtel as the contractor for the new highway from Split to Dubrovnik. An important condition would be heavy involvement of Croatian companies in the project. Bechtel representatives, who allegedly voiced readiness to include Croats in up to 70 percent of the job, would send back a concrete proposal in a matter of days. In addition to this Adriatic-Ionic corridor, the GOC was also interested in the 5C corridor running from the Hungarian to the Bosnian border, as well as convincing the Slovenes to build their own portions of the highways connecting Croatia with Italy and Austria, respectively. Kalmeta asked for USG help with the Slovene government about this issue.

4. The government intends to continue with the 2003-2007 Railroad Modernization Plan as enacted by the previous government. To achieve this, the government would have to spend 15 billion kuna (\$2.5 billion), part of which would be collected through a gasoline tax.

Telecommunications

5. Despite resistance from the existing telecom firms to allowing more networks of fixed and mobile telephony, Kalmeta supported the liberalization of the telecommunications sector. Competition would eventually bring down the prices of telephone services, which were among the highest in Europe, Kalmeta said. Also, new concessionaires would create from 1 to 1.5 thousand jobs, and contribute at least 170 million kuna to the state budget.

Tourism

16. As for tourism, Kalmeta supported quick privatization of the remaining 30 hotel companies, which owned a much greater number of hotels. He favored foreign brand-name investors that would significantly raise the quality of accommodations. Kalmeta singled out Istria as a region

whose approach to tourism was serious, systematic and which recognized that tourism was a long-term investment. As far as the rest of Croatia was concerned, tourism was handled in an "amateurish" way. Kalmeta mentioned that the government engaged with the World Bank in a \$240 million project to manage wastewater in the coastal cities. Zadar and Opatija were the first towns to start the project.

Coast Guard

17. Kalmeta liked the idea of a Coast Guard as it exists in the U.S. His ministry was drafting legislation to establish such a Coast Guard and welcomed U.S assistance and experience in this matter.

Comment

18. Kalmeta's gigantic ministry came as a result of merging three ministries into one. While highly talented -- Kalmeta was described during the election campaign as Croatia's most "successful mayor" -- the Zadar native is still trying to determine where his huge portfolio ends. His public works and reconstruction predecessor, Radimir Cacic, a bullish and determined businessman, left some big shoes to fill. To a large extent, the government's performance will be measured by Kalmeta's achievements, both domestically (tourism and road building) and internationally (return and reconstruction). Despite this pressure, Kalmeta strikes us as a capable manager, rather than a politician, who is on top of his portfolio and whose eye is set on results.

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